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Suriname: An Economy Under Siege

The suspension of Dutch aid following the December executions of 15 leading critics of Suriname's government is deepening the country's economic problems and raising the prospects for increased Cuban involvement. The Bouterse regime's frantic search for funds from several Latin American countries so far has been futile as these countries grapple with their own financial difficulties. With cautious spending, Suriname probably has sufficient reserves to tide its import-dependent economy over the next few months. Tougher austerity measures will be needed, however, should replacement aid not materialize by mid-1983. The regime's clumsy handling of the economy and its leftist bent suggest that any belt tightening will be haphazard, with the business community bearing the brunt of probable tax hikes and domestic credit restrictions.

Economic Slide Since the 1980 Coup

Under the tutelage of the Dutch, who provided the lion's share of foreign aid, Suriname managed to achieve robust economic growth during the initial years following independence in 1975. The tiny economy's heavy dependence on aluminum, however, left Suriname vulnerable to the global recession and soft demand for this metal. Meanwhile, weakening business confidence in the coalition government's ability to rule slowed investment. In these circumstances, real GDP growth declined 3 percent in 1979.

The military-dominated government in place since a group of noncommissioned officers seized power in February 1980 was unable to brake the economic decline that began in 1979. In 1980 real GDP fell almost 4 percent, and the economy stagnated over the next two years. A 35-percent drop in bauxite

output—owing to continuing world recession and rising production costs—and the worsening investment climate at home drove this poor performance between 1980 and 1982. Only the public sector showed strong growth. Even then, government expenditures were directed more toward consumption than toward growth-sustaining investment.

The government's limited ability to prepare and implement development projects increasingly constrained growth. Mismanagement, caused by a shortage of technical and managerial talent in government, badly delayed aid disbursements. Suriname's weakening competitive position in a softening world aluminum market also caused the government to shift its development strategy. In 1981 the regime scuttled large bauxite and aluminum smelter undertakings, the Kabalebo hydroelectric project, and construction of a new port. Less ambitious agricultural projects, which would provide quick benefits to small farmers, were left intact. Output in the agricultural sector nudged ahead, based primarily on expanded acreage cultivated for export-oriented rice and palm oil, but high labor and transport costs continued to undermine Suriname's international competitiveness.

At the same time, the regime's increasingly leftist tone and increasingly erratic approach to decision-making started to alarm the business community. Under the process of "Surinamization" (nationalization or joint ventures with government participation), the state expanded its involvement in the economy. Constrained by fixed prices, key commercial enterprises with government participation—such as sugar, shipping, and electricity—last year alone required some \$50 million in subsidies to offset operating losses.

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The Economy in a Nutshell

Suriname shares many of the economic constraints common to the Caribbean area:

- *High import dependence that leaves the country vulnerable to world inflationary trends and complicates domestic economic management; imports are equivalent to 45 percent of GDP.*
- *A one-commodity economy that holds the country hostage to world mineral prices; production of bauxite, alumina, and aluminum provide 80 percent of total export earnings, nearly 20 percent of GDP, and over 20 percent of government revenues.*
- *A tiny domestic market that crimps development of the manufacturing sector; Suriname's population totals only 350,000.*
- *Substantial emigration that helps to relieve high unemployment yet saps the country of skilled labor; at least one out of every three Surinamers lives in the Netherlands. Despite emigration, unemployment is around 20 percent, supported by an influx of Guyanese workers.*

- *An agricultural sector that contributes less than 10 percent of GDP; farming is handicapped by high labor costs and poor utilization of existing resources; dense rainforests cover 90 percent of the country, while large tracts of cultivated land have been left fallow by the steady exodus of Surinamese and Dutch plantation owners.*

Dutch aid until recently had cushioned Suriname from the severity of economic problems besetting its Caribbean neighbors. At the time of Suriname's independence in 1975, the Netherlands forgave all outstanding Surinamese debt and agreed to supply more than \$1.5 billion in aid—about one and a half years' worth of GDP—over a 10- to 15-year period. This largess enabled Suriname to mount extensive rural development and hydroelectric projects while balancing government budgets and maintaining large foreign reserve holdings and a low debt service burden. At the same time, the aid inflows, combined with large-scale emigration, contributed to a per capita income that was among the highest in the non-oil-exporting Caribbean countries and more than double that of bauxite-rich Guyana or Jamaica.

The foreign trade picture also deteriorated; in 1981 Suriname had its first balance-of-payments deficit in five years. Spot world aluminum prices plummeted over 40 percent between 1980 and 1982. Led by the aluminum industry, nominal export earnings fell 15 percent during this period. Meanwhile, foreign aid slackened as project priorities were reshuffled. Rather than deplete its international reserves or resort to a devaluation that would have reduced foreign purchases of critical producer goods, the regime selectively tightened import restrictions on consumer goods. Consequently, according to official Surinamese reporting, the country retained international reserve holdings that were roughly equivalent to about four months' import coverage at yearend 1982.

Gloomy Outlook in 1983

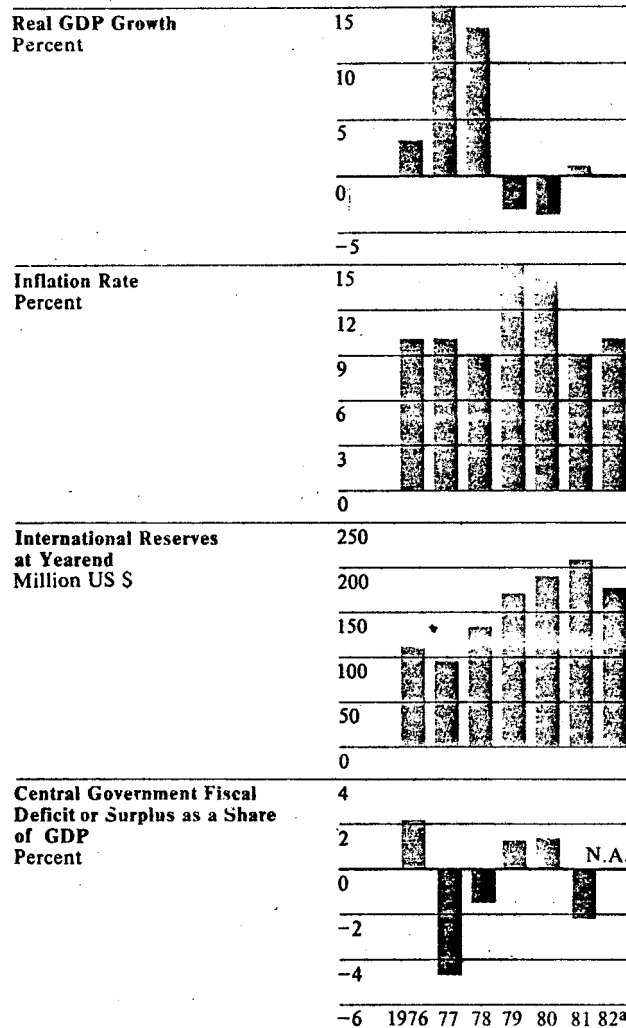
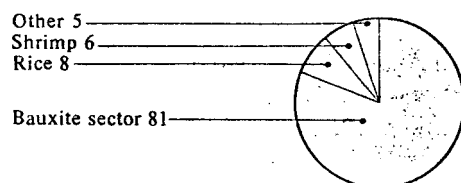
Meeting Economic Needs. The regime's most pressing economic needs are to find replacement aid and to reassure the country's nervous business community. Until the Netherlands suspended aid following the December executions, the Dutch had accounted for more than 90 percent of total bilateral aid to Suriname.

Led by the United States, most other Western donors have suspended their small programs in response to the regime's brutal handling of its opponents. We believe private capital

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Suriname: Economic Indicators

Note change in scales

**Exports by Sector, 1980**
Percent^a Estimated.

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flight continues to drain Suriname's international reserves despite the recent banking clampdown.

The chilling effect of Bouterse's increasingly heavyhanded tactics to quell dissent and to consolidate his power will make future aid unlikely. The regime's frantic search for aid, trade, and technical cooperation

is likely to prove disappointing. These countries are suffering from serious financial troubles and seem reluctant to support the Bouterse regime.

While prudent management would allow Suriname to muddle through the next few months, probable economic bungling could amplify problems late and make the course of the economy through the rest of 1983 harder to predict. Much also will depend on Bouterse's staying power.

By brutally eliminating his main opponents and intimidating important elements of society, however, Bouterse has reduced the chance of an internal uprising any time soon. He will remain vulnerable to an externally launched attack, but the exile groups appear disorganized and ineffective.

If the regime consolidates its power, the Surinamese economy can be expected to become the chink in Bouterse's armor. Even with aid later this year, the Surinamese economy at best will stagnate in 1983. Weak world recovery and inherent lags in the recovery of aluminum demand will leave export earnings at about last year's level. Moreover, project aid would be especially hard to restore quickly to the levels originally planned.

Alternatively, if the near-total cutoff in Western aid continues, Suriname would have to enact more import cuts and adopt fiscal austerity measures

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Suriname: Balance of Payments

Million US \$

	1976	1977	1978	1979	1980	1981	1982 ^a	1983 ^b
Current account	63	-4	28	44	16	-25	-68	-75
Trade balance	45	22	68	74	61	-38	-76	-5
Exports, f.o.b.	304	346	411	444	515	474	434	430
Bauxite and derivatives	235	277	310	341	415	376	344	340
Imports, f.o.b.	259	324	343	370	454	512	510	435
Net services and transfers	18	-26	-40	-30	-45	13	8	-70
Grants from the Netherlands	89	77	56	81	74	96	90	0
Capital account	-38	-12	-10	-6	3	43	37	-30
Net direct investment	NEGL	-13	-7	-16	10	34	NA	-5
Medium- and long-term loans	-55	NEGL	22	-1	NEGL	-1	NA	25
Net short-term capital, including errors and omissions	17	1	-5	11	-7	10	NA	-50
Change in gross reserves	25	-16	38	38	19	18	-31	-105

^a Estimated.^b Projected on the basis of a near total cutoff in Western aid, private capital flight of \$70 million, and a drawdown on gross reserves to the equivalent of two months' import coverage.

that would cause a sharp economic decline. Emigration, mainly to the Netherlands, neighboring French Guiana, and the Netherlands Antilles, would rise even faster as many of the 6,000 workers assigned to Dutch-financed projects are laid off. Although this exodus will help to vent political frustration and cap unemployment, it will further drain the availability of skilled labor needed to maintain economic activity. []

Threats to the Private Sector. We believe Bouterse's political insecurity and reliance on a shrinking circle of advisers probably will cause him to take heavyhanded actions. The deteriorating economy could goad him into both cajoling and threatening the business community in the coming months; businessmen already have been asked to donate \$300,000 to the coup anniversary celebrations this week and have been prohibited from laying off employees. []

Although some of Bouterse's closest advisers apparently espouse nationalization of foreign firms, we think that the soft world aluminum market, lack of skilled technicians, and steep modernization costs will cause Bouterse to resist such measures for now. Ongoing tax negotiations between the regime and the aluminum companies have been acrimonious and could provide the first real test of Bouterse's intentions toward them. While the regime may unilaterally hike bauxite levies as a quick revenue fix, this action would be shortsighted. More than 90 percent of Suriname's bauxite exports and 40 percent of its alumina sales are directed toward the United States and the Netherlands. Both countries could easily shift to alternative suppliers. Large stockpiles overhanging the world aluminum market would make it hard for Suriname to find other buyers. []

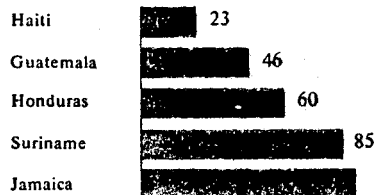
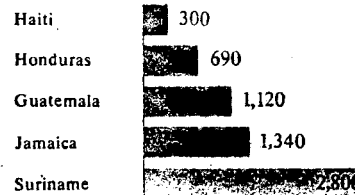
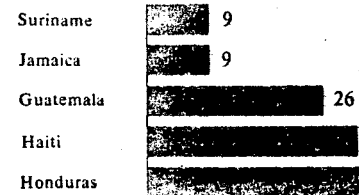
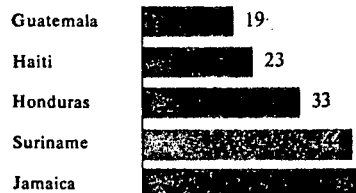
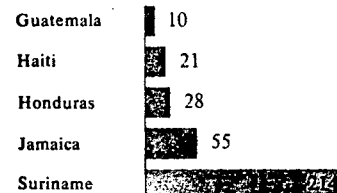
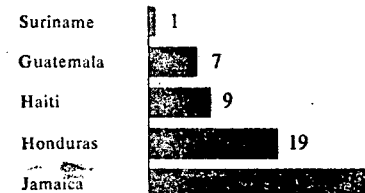
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Suriname: Economic Comparisons

Note change in scales

Adult Literacy Rate, 1977
Percent**Per Capita GDP, 1981**
US \$**Agriculture as a Share of GDP, 1981**
Percent**Imports as a Share of GDP, 1981**
Percent**Western Official Development**
Aid Per Capita, 1980
US \$**Debt Service Ratio, 1981**
Percent

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Opportunities for Cuban Mischief. Bouterse already has warned publicly that he will seek aid from the Soviet Bloc should his demarches to Western countries not pan out.

After a military coup almost succeeded in March 1982, Bouterse turned to Havana for political support. Exploiting Bouterse's growing isolation and sense of insecurity, Cuba has gained considerable influence and is likely to press for more. The Cuban Ambassador to Suriname recently stated that Cuba wants to increase trade with that country. The Soviet Ambassador to Suriname has expressed interest in a possible barter in which Surinamese rice and lumber would be delivered to Cuba to save costs in

shipping Soviet supplies. In exchange, Soviet vehicles, consumer goods, and possibly light machinery would be sent to Suriname.


We believe Bouterse's reliance on the Cubans will continue as long as he believes his domestic position is insecure and Havana is not perceived to be acting against his interests.

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American countries and to avoid alienating Western powers as Cuba attempts to renegotiate its debt. Under these circumstances, the Castro regime probably will pursue a low-key expansion of its influence. We believe Cuban influence in Suriname would expand faster if Bouterse or another leftist leader could demonstrate a firmer grip on power.



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Lasting Economic Problems. Even with political stabilization and a reopening of the aid spigot, a variety of factors probably would prevent a return in the next few years to the high growth rates that the country enjoyed following independence. Despite the rise in aluminum prices that probably would accompany world economic recovery, earnings from the aluminum sector will be constrained by a diminishing supply of easily accessible bauxite, high operating expenses, and steep modernization costs. Moreover, economic diversification will be harder than in the past. The shrinking domestic market will dampen further development of food processing and other light industries. Surinamese businessmen, foreign investors, and potential donors understandably will be cautious and probably will not undertake many projects until they can be assured of long-term political stability. In addition, the flight of technical and managerial talent will have lasting repercussions throughout the economy.



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